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COOPERATIVE GRAIN MARKETING.

A Comparative Study of Methods in the United States and in Canada.

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INTRODUCTION.

The history of underlying causes and conditions surrounding the establishment and growth of a large number of the single-unit type[1] of farmers' elevators in the United States is not radically different from the history of the grain growers' movement in Canada. However, in the actual establishment of marketing facilities, the farmers of Canada pursued a different course. Instead of the locally owned and operated form of farmers' elevators found in the Middle Western States of the United States the Canadians found it desirable to establish centrally controlled elevators of the line-house type. While there are a number of the single-unit type of farmers' elevators in Canada, it is the rather conspicuous success of the line-house type which has attracted attention in this country, and it is these which are usually meant when reference is made to the Canadian plan.

[1] By the single-unit type of farmers' elevators is meant an elevator wherein ownership and control is vested in the body of stockholders in the immediate surrounding community and which is operated as a separate unit independently of any other similar elevator.

The Canadian plan, in the above sense, is typified in two large companies: The United Grain Growers, Ltd., with headquarters at Winnipeg, Manitoba, and the Saskatchewan Cooperative Elevator Company, Ltd., of Regina, Saskatchewan. These two companies own and operate over 600 country elevators in the three Provinces of Alberta, Saskatchewan, and Manitoba, in addition to other activities, which will be more specifically referred to in another part of this bulletin.

Because the Canadian farmers' companies have entered the terminal markets and in other ways have carried their marketing activities further than have the single-unit type of farmers' elevators in the middle western section of the United States, some have thought that the American farmers erred in their scheme of organization and that the Canadian type of organization is the correct type for this country as a whole. It is not the purpose of this bulletin to try to establish which is the correct type, but rather to segregate and distinguish certain conditions and factors relating to the operation of different types of organizations and to assist the reader to a better understanding of cooperative grain marketing as carried on in various parts of the United States and in Canada.

In the collection of material for this study, personal visits were made to typical organizations representing different types and operating conditions, and numerous interviews were held with persons variously engaged in grain marketing in this country and in Canada.

THE FARMERS' ELEVATOR MOVEMENT.

EARLY DEVELOPMENT.

There is a notable difference in the manner in which the cooperative activities of the farmers took concrete form as between the middle western section of the United States and western Canada. In the United States the farmers began by establishing their own cooperatively owned elevators at the local station, trusting to independent commission firms in the terminal markets to furnish an outlet for their grain. The individual grower of grain sold his grain to his own local elevator company, in which he was a stockholder, and it in turn found an outlet for the grain through the regularly established commission firms and other trade avenues. In Canada, on the other hand, the farmers first organized for the purpose of securing legislation favorable to direct shipments by individual growers and of correcting alleged trade abuses. There was no attempt by the growers, in the beginning, to establish elevators; their efforts were directed toward securing the privilege of loading their own grain directly into cars and having it sold fairly in the central markets. That a grower might, if he so desired, ship his grain direct seemed to offer at least a check on those elevators which were unreasonable in their charges

simply because the grain eventually had to move through them. The result of their efforts was the Manitoba Grain Act, which later became the Canada Grain Act. This act is very comprehensive, and it specifically prescribes how nearly every phase of the business of grain marketing in Canada shall be carried on. Among its many provisions are regulations relating to the distribution of cars and the establishment by railroad companies of loading platforms for the convenience of individual shippers. There is also provided a licensing system for country elevators, commission merchants, terminal elevators and track buyers. Under this act comes also the authority for and the establishment and administration of grades, as well as weighing and inspection. The law is administered by a commission appointed by the Governor in Council of Canada.

It was not until extensive investigations by the Government had been made of the entire grain-marketing system at the instance of the grain growers' associations of some of the Provinces, and the passage of the Manitoba Grain Act, that the grain growers in Canada engaged in cooperative marketing, and then they entered the terminal markets without first establishing country elevators. Their first activity was the establishment of the Grain Growers' Grain Co., Ltd., at Winnipeg, now the United Grain Growers, Ltd. During the first years of its existence this company conducted a purely commission business, receiving shipments of grain direct from member growers. It will be seen, therefore, that the farmers of Canada went into the terminal markets even before they established elevators at the country railroad stations, whereas in the United States farmers' elevators were first established locally.

Just why the grain growers in western Canada should begin their actual marketing activities in the terminal markets, while in the United States the farmers' elevator movement originated with the establishment of country elevators, may not at first appear clear. However, it must be remembered that in Canada the efforts of the grain growers to market cooperatively began while the country was still new and sparsely settled. Capital with which to erect elevators at the country points was not readily available. Most of the growers had scarcely enough capital to carry on the business of growing wheat, and in that thinly populated section a capital subscription sufficient to erect a modern grain elevator at each shipping point would have amounted to a considerable per capita cost. The wheat farms were large; farm storage was not so adequately provided as it was in Iowa, Illinois, and other Middle Western States when the movement started there, and consequently the establishment of loading platforms, and the possibility of shipping grain direct, without having it pass through the hands of the country dealers, seemed to the growers the most logical way out of their difficulties.

MARKETING CONDITIONS.

In the actual physical handling of grain the bulk handling method prevails in Canada, as it does in the middle western section of the United States. But in the method of marketing on the part of the individual growers there is a difference in practice. In the Middle Western States the local farmers' elevator is usually confined in its activities to buying and selling the grain of its member-patrons and others, and its principal source of revenue is in the profits made upon resale. Comparatively few growers ship direct to commission firms in the terminal markets, and even the practice of storing grain for farmers by the local elevators is being discouraged. In Canada, on the other hand, the grower has a choice between several methods of marketing his grain.

(1) He may deliver his grain to the local elevator, and sell it at the current price paid by the elevator in the same manner that most of the country grain is sold in the Middle Western States, in which case it is designated as "street grain," and the prices which are paid for grain sold in this manner are called "street prices."

(2) He may have his grain stored in a special bin, the identity of the grain being preserved, and later he may have it loaded into cars for direct shipment. In this case he pays to the elevator company merely its charge for storage and loading. After the grain is loaded into the car, and before it is shipped, he may sell it to the elevator company with which he special-binned it or he may sell it to any other company or track buyer, in which case it is referred to as "track grain," and the prices paid for this kind of grain are called "track prices"; or he may ship to the terminal market, there to be sold on consignment either by the same elevator company, providing it is engaged in the commission business, or by some other commission firm.

(3) He may have his grain placed in store in the local elevator with other grain of like kind and grade, which is called "grade storage," and at some time in the future he may sell it as "street grain"; he may have an equivalent number of bushels loaded into a car, and there sold as "track grain"; or he may ship on his own individual account to the terminal market.

(4) He may load his grain directly into the car, utilizing the loading platforms provided by the railroad companies for that purpose, and sell it as track grain or consign it direct to some commission firm in the terminal market.

(5) If upon arrival in the terminal market of grain shipped for the account of a grower the grower elects not to sell, he may under certain conditions have the car ordered to a public terminal elevator for further storage. Direct shipment privileges, of course, are limited to carload quantities.

For the purpose of catering to those growers who wish to make use of the special-bin privilege it is necessary to provide elevators having a considerable number of small bins. While the Canada Grain Act makes it obligatory upon all licensed elevators to special-bin so long as they have available space, it can readily be seen that elevators having no desire to special-bin may "grade store" in such manner as to have little or no space available for special binning, especially where elevators are constructed with a limited number of large bins only. The farmers' companies claim to provide more special-bin accommodations than the private-owned elevators usually give. In special binning the grower may be required to pay storage on the capacity of the bin which is needed for his special purpose.

In the matter of storage for growers, the elevators in Canada may, upon giving 48 hours' notice to the owner, ship the stored grain from the country elevators to a public elevator, thus relieving congestion at the local elevators.

THE UNITED FARMERS' ASSOCIATIONS.[2]

In Canada the farmers have been fortunate in having only a comparatively few general educational and agricultural associations which are broad in scope and territory, and the result has been concentration of effort along definite lines. In the three principal grain-growing Provinces, Alberta, Saskatchewan, and Manitoba, for example, there are found the United Farmers of Alberta, the Saskatchewan Grain Growers' Association, and the United Farmers of Manitoba, respectively. These and similar associations in some of the other Provinces, together with their respective affiliated commercial organizations, are united in the Canadian Council of Agriculture, and through these various associations practically all of the demands of the agricultural interests in Canada are voiced. There is, therefore, no division of interest or effort among what might be termed competing farmers' organizations, as has sometimes been the case in the United States.

The existing associations are well supported, and there is unity of action. With the exception of the Saskatchewan Grain Growers' Association, these organizations have confined their efforts largely to educational and legislative lines, leaving commercial undertakings to separate and distinct trading corporations. The Saskatchewan Grain Growers' Association is incorporated as a trading company and is engaged in handling all kinds of farm supplies, but inasmuch as its commercial activities are carried on in separate departments, there is in reality a clean-cut division between its educational activities and the handling of supplies.

[2] Formerly known as the Grain Growers' Associations. They are now more frequently called the United Farmers of a certain Province, as the United Farmers of Alberta.

The principal reason why the Saskatchewan Grain Growers' Association is engaged in commercial activity is that the Saskatchewan Cooperative Elevator Co. deemed it wise to confine its activities strictly to a grain business and there was a demand for certain supplies usually handled in connection with elevators. The trading department of the Saskatchewan Grain Growers' Association was created to satisfy this demand.

The several provincial associations concern themselves with matters of local interest and with legislation to be had through the provincial governments, while the Canadian Council of Agriculture is concerned with matters of national scope. The latter is able to sift and harmonize the various resolutions which come to it for action from the conventions of the provincial associations.

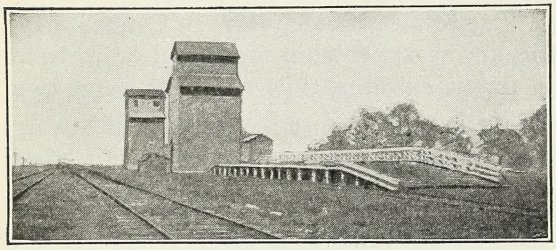

FIG. 1.—View of loading platform and country grain elevators in Saskatchewan, Canada.

It will not be practicable in this bulletin to discuss the various activities of these organizations nor to describe them in detail. They are financed by membership dues and in the past have also received large grants from the earnings of the principal farmers' trading companies, such as the United Grain Growers and the Saskatchewan Cooperative Elevator Co. Each provincial association is composed of locals which have as their center the local shipping station or perhaps the country schoolhouse. These associations are regarded as the power back of everything that has been accomplished by the grain growers in Canada in the matter of establishing their cooperative marketing and trading organizations.

EXAMPLES OF MARKETING ORGANIZATIONS IN CANADA.

The Canadian grain growers first entered upon the commercial handling of their grain in 1906, when the Grain Growers' Grain Co. was established at Winnipeg. For several years this company confined its activities to an exclusive grain commission business, handling the grain of its members in much the same manner as any other commission firm. From the beginning it had a seat on the Winnipeg Grain Exchange and received shipments from member and nonmember growers in the three prairie Provinces. The rules of the Winnipeg Grain Exchange made it impossible for this company to prorate its earnings on the basis of patronage furnished, and while it was at one time suspended because of a supposedly avowed

purpose to so distribute its earnings, it has consistently followed the regular established usages of the grain trade.

In 1911 the Saskatchewan Cooperative Elevator Co., Ltd., was established, with headquarters at Regina, Saskatchewan, and in 1913 the Alberta Farmers' Cooperative Elevator Co., Ltd., with headquarters at Calgary, Alberta, was formed. Each of these companies was successful in building up quickly a large membership and in handling a large volume of business. Both the Saskatchewan Cooperative Elevator Co. and the Alberta Farmers' Cooperative Elevator Co. received financial assistance from the provincial governments, which consisted in an advance by the Government of 85 per cent of the cost of buying or building an elevator, to be repaid in installments extending over a 20-year period.

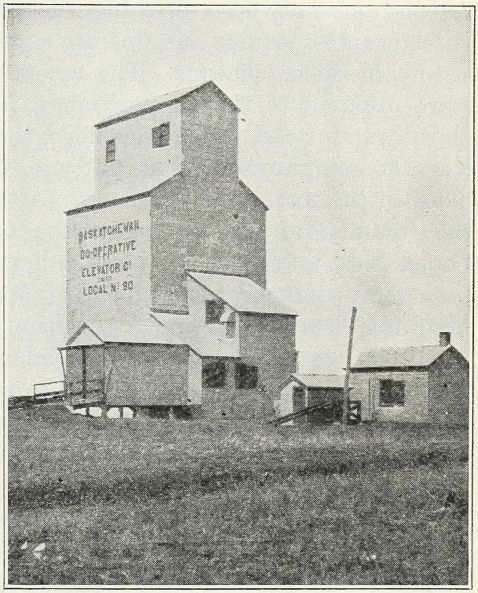

FIG. 2.—Country elevator of the Saskatchewan Cooperative Elevator Company, Ltd.

In addition to mortgages and preference accruing to the provincial governments in the elevators and assets of these companies as security for the repayment of advances made, the special incorporation acts under which the companies were created, provided, among other things, for audits by a provincial auditor, and also provided that certain conditions relative to acreage and other factors necessary to success must be met before elevators could be built. While giving very wide powers to farmers' companies, the provincial governments also tried to guard them against ill-considered acts by reserving to the Government certain matters for approval.

The Grain Growers' Grain Co., the Saskatchewan Cooperative Elevator Co., and the Alberta Farmers' Cooperative Elevator Co. were all incorporated under special legislative acts.

In 1917 the Grain Growers' Grain Co. and the Alberta Farmers' Cooperative Elevator Co. amalgamated under the name of the United Grain Growers, Ltd., so that at the present time the United Grain Growers, Ltd., and the Saskatchewan Cooperative Elevator Co., Ltd., are the two outstanding examples of farmers' grain-market-

ing organizations in Canada. An analysis of the organization plans and operating methods of these two companies will, therefore, be sufficient to give the reader an idea of cooperative grain marketing as practiced by western Canada.

THE SASKATCHEWAN COOPERATIVE ELEVATOR CO., LTD.

The Saskatchewan Cooperative Elevator Co., Ltd., was formed as the direct result of recommendations made by a commission appointed by the Saskatchewan provincial government in 1910 to investigate and report upon the entire grain situation in western Canada. Prior to the appointment of this commission the grain growers' associations had been pressing the provincial government of Saskatchewan to acquire and operate as public utilities the country elevators in Saskatchewan. The recommendations of the commission were opposed to the proposition to own and operate the country elevators; instead it recommended the incorporation of a farmers' elevator company for that purpose, to be assisted by the government in the matter of financing. Although the recommendation of the commission was not what the farmers of Saskatchewan had hoped for, it proved to be the best course, for about the same time the provincial government of Manitoba was persuaded by the Manitoba Grain Growers' Association (now the United Farmers of Manitoba) to purchase a large number of country elevators and attempt to operate them. The venture was unsuccessful after two seasons and the 170 or more government-owned country elevators in Manitoba were subsequently leased to the Grain Growers' Grain Co. They are under lease to the United Grain Growers, Ltd., at the present time.

The Saskatchewan Cooperative Elevator Co. is incorporated under a special act of the Saskatchewan Legislature. During the first years of its life it established over 40 country elevators and handled more than 3,000,000 bushels of grain. Since that time the number of country elevators operated by it has grown to over 300 and in one year it is said to have handled as much as 43,000,000 bushels of grain. The financial statement of this company for the season 1918–19 shows it to have a paid-up capital stock of $1,122,312.50 and a surplus of $1,969,591.36. Its stockholders number over 21,000. The average number of shares held by a stockholder is slightly more than 3. Par value of shares is $50. During the season 1918–19, which was a short crop year, 20,823,138 bushels were handled through 308 of its country elevators. Grain handled for farmers direct, that is, platform-loaded cars, amounted to 1,018,418 bushels. The company conducts a commission business on the Winnipeg Grain Exchange and operates two terminal elevators at Port Arthur, Ontario. One has a capacity of 650,000 bushels and is suitable for mixing and

conditioning purposes; the other has a capacity of 2,500,000 bushels and is being enlarged to practically double its original capacity. This is used exclusively for public storage purposes.

The affairs of the Saskatchewan Cooperative Elevator Co. are administered by a board of nine directors, each of whom holds office for three years. In the election of these directors the stockholders do not have a direct vote, but each local, at least 30 days prior to the annual meeting, elects a delegate to represent all of the stockholders within such local. This delegate has one vote only, regardless of the number of stockholders in a given local.

The locals are established in this manner: Whenever a group of farmers desire an elevator at their shipping point, to be operated as a unit of the Saskatchewan Cooperative Elevator Co.'s system, they may petition the company to establish a local. Under the provisions of the Saskatchewan Cooperative Elevator Act the directors may not, without the consent of the Lieutenant Governor in Council, establish any local unless it appears to their satisfaction that the amount of shares held by the supporters of the proposed local is at least equal to the value of the proposed elevator, that 15 per cent of the amount of such shares has been paid up, and that the aggregate annual crop acreage of the said shareholders represents a proportion of not less than 2,000 acres for each 10,000 bushels of elevator capacity asked for. Upon the establishment of a local the supporting shareholders meet and elect a local board of management consisting of five members, who hold office until their successors are appointed. Each stockholder may own not more than 20 shares of the stock of the company ($1,000) and has only one vote, regardless of the number of shares owned. At this meeting of the supporters of a local there is elected the delegate who represents all of the stockholders in that local at all the general meetings of the company.

While the local board of management has no powers or authority not delegated to it by the general board of directors of the company, it does, nevertheless, perform a valuable service in advising the general directors with respect to matters of local concern. The directors in the local do not actually control even the manager or agent of their own local elevator, but their recommendations relative to such matters are necessarily given weighty consideration by the general board. They also are able to bring to the attention of the general board any dissatisfaction existing among the local members and to suggest improvement in the service. The price to be paid for grain at a local elevator, of course, is determined exclusively by the central office, and all matters of business policy are dictated from this office. The duties of the local agent are confined mainly to carrying out the instructions of the central office and reporting to it regularly and in detail the business transacted by him.

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Section 20 of the act to incorporate the Saskatchewan Cooperative Elevator Co., Ltd., stipulates the manner of apportioning earnings. In substance it provides that after expense of operation and certain charges have been paid, including the payment of installments and interest of loans due the Government, out of the remaining earnings may be paid a dividend not to exceed 10 per cent upon the paid-up capital; 50 per cent of the balance, if any, may then be distributed in several different ways:

(1) It may be paid to the shareholders in the form of a patronage dividend, proportionate to the volume of business which each has brought to the company. Under this method the earnings of the company are considered as a whole, no account being taken of the variable net profits accruing from the different locals.

(2) It may be paid to the supporters of the locals on the basis of the aggregate relative net financial results of the respective locals. This method recognizes the differences in operating cost at the different locals and provides a means whereby the supporters of less profitable locals may be precluded from sharing fully in the profits of locals which have been better supported.

(3) It may be paid partly according to each of the above-described methods. In this case the supporters of a particular local may share less fully in the earnings which are peculiar to that local than they would under method 2.

(4) It may be applied on the unpaid portion of shares; that is, a certain amount may be placed to the credit of the shareholders for each share held but not fully paid up, thereby lessening the unpaid portion and increasing the paid-up capital stock of the company.

The remaining 50 per cent of the balance may be set apart as a reserve under what has been designated in the act of incorporation as "the elevator reserve account."

While patronage dividends may be paid the members of the Saskatchewan Cooperative Elevator Co. to the extent of 50 per cent of the net profits remaining after certain other payments have been met, including a dividend on capital stock, no such patronage dividends have ever been paid. Under a rule of the Winnipeg Grain Exchange forbidding rebates, the payment of patronage dividends has been regarded as a form of rebates subjecting the member to suspension, and this is one reason that patronage dividends have not been paid. There is some sentiment for patronage dividends, but so far the directors of the company have felt the need of all earnings which have accrued and have employed them in the further expansion of the business.

Up to the present time the Saskatchewan Cooperative Elevator Co. has confined its activities to the handling of grain exclusively and has not engaged in handling supplies of any kind.

THE UNITED GRAIN GROWERS, LTD.

The Grain Growers' Grain Co., organized in 1906, first operated under a Manitoba provincial charter. In 1911 it applied for and received a charter from the Dominion Government. The Alberta Farmers' Cooperative Elevator Co., organized in 1913, operated under a charter of the Alberta provincial government until 1917, when it amalgamated with the Grain Growers' Grain Co. and the two companies became the United Grain Growers, Ltd., by amendment to the Grain Growers' Grain Co.'s Dominion charter. At the time of the amalgamation the Grain Growers' Grain Co. had a paid-up capital stock of $1,357,382.46 and a surplus of $1,118,351.51, while the Alberta Farmers' Cooperative Elevator Co. had a paid-up capital stock of $563,689 and a surplus of $541,004.38. On August 31, 1919, the paid-up capital stock of the new company, the United Grain Growers, Ltd., was $2,415,185.58 and the surplus $1,756,429.78. The authorized capital stock of the new company was placed at $5,000,000, divided into 200,000 shares at $25 each. Because of the accumulation of a large surplus, tending to increase the real value of the shares, the selling price is fixed at $30 per share. Each member may own not more than 100 shares, and membership is limited to the owners or lessees of farm land or their wives, unless, by special resolutions of the members, others are admitted. Over 35,000 shareholders compose the present membership of the United Grain Growers, Ltd., and these are divided into locals as in the case of the Saskatchewan Farmers' Cooperative Elevator Co. To form a local 40 members are required, holding at least 267 shares. Each local elects a local board of 5 members, who act mainly in an advisory capacity to the general board of directors. The local also elects one delegate to represent the supporting shareholders at the general meetings of the company. Each delegate has only 1 vote, regardless of the number of shareholders belonging to a single local, but in case a local has 188 or more members it is entitled to have 2 delegates. In the meetings of the locals each shareholder has only 1 vote, and voting by proxy is not allowed either in the general meetings or in the local meetings. The affairs of the company are administered by a board of 12 directors, 4 of whom are elected each year to serve for a period of three years.

A by-law provision gives full authority to the board of directors to determine the basis of the distribution of earnings. No patronage dividends have been paid.

In the operation of its country elevators much the same methods are used by the United Grain Growers as are used by the Saskatchewan Cooperative Elevator Co. Management is centralized in the office at Winnipeg, but the office organization of the old Alberta

Farmers' Cooperative Elevator Co. is being maintained at Calgary, Alberta, as western division, and through it is administered all of the business affecting the local elevators in Alberta, while the Winnipeg office has direct contact with the elevators in Manitoba and Saskatchewan.

While the Saskatchewan Cooperative Elevator Co. has consistently adhered to its policy of handling grain exclusively, the United Grain Growers, Ltd., has engaged in numerous other operations. In addition to operating terminal elevators at Fort William and Port Arthur, Ontario, and conducting departments for handling farm supplies of all kinds and for live stock, it controls a number of subsidiary corporations. Among these may be mentioned the Grain Growers' Export Company, Inc., of New York; the Grain Growers' Export Co., Ltd., of Canada; Public Press, Ltd., Winnipeg; the Grain Growers' Guide, Winnipeg; United Grain Growers' Securities Co., Ltd., Calgary; United Grain Growers (British Columbia), Ltd., Vancouver; United Grain Growers' Sawmills, Ltd., Hutton Mills, British Columbia. The first two companies were organized to enable the parent organization to conduct to better advantage the export business, which was begun as early as 1910. Through the Public Press, Ltd., and the Grain Growers' Guide, Ltd., is carried on the business of publishing the Grain Growers' Guide, a weekly publication devoted especially to agricultural interests in Canada. The United Grain Growers' Securities Co., Ltd., is engaged in conducting a general insurance business and a land department. The United Grain Growers (British Columbia) was formed for the purpose of furnishing a western outlet for grain for feed purposes, and the United Grain Growers' Sawmills, Ltd., was intended to provide manufactured products from a timber tract purchased in British Columbia in 1912. All of the subsidiary companies are owned and controlled absolutely by the United Grain Growers, Ltd., and the affairs of each are administered by the directors of the controlling company.

The annual report of the United Grain Growers, Ltd., for the year ending August 31, 1919, indicates a volume of business in farm supplies of $6,180,359. Among the items handled are flour and feed, coal, hay, posts, twine, wire and bale ties, salt, fruit and vegetables, lumber and builders' supplies, machinery and supply parts, sacks, trucks, oils, and miscellaneous articles. During the year the company handled 22,203,007 bushels of all kinds of grain, which is considerably less than it has handled in former years. The live-stock department handled a total of 5,257 cars.

TERMINAL ELEVATORS.

Both the United Grain Growers, Ltd., and the Saskatchewan Cooperative Elevator Co., Ltd., have public and private terminal ele-

vators located either at Port Arthur or Fort William, Ontario, from which grain may move eastward by rail or boat across the Great Lakes. By public terminal elevators is meant terminal elevators which have qualified as such under the Canada Grain Act and are duly licensed to conduct a public storage business under the rules and regulations prescribed by the Board of Grain Commissioners for Canada.

A distinction should be noted here between public terminal elevators and private terminal elevators. The former are not allowed to mix grades nor to own any of the grain held in their custody as public warehousemen. Their business is to clean and store grain under such conditions and for such charges as the Board of Grain Commissioners for Canada may approve. They are subject to very close Government supervision, and warehouse receipts issued by them are deliverable on future contracts. The private or "hospital"[3] elevators, while also under Government supervision, are allowed to mix certain grades, but are not allowed to conduct a public-storage business. They must buy all of the grain which they handle. They, of course, are able to earn a considerable amount at times through their mixing operations. For example, when low-grade grain is being sold at heavy discounts they may buy a quantity of very high quality No. 2 Hard wheat, mix into it a quantity of low-grade wheat and still retain No. 2 grade. It may be noted that hospital elevators are prohibited from taking certain grades into their elevators and also that when it appears that grain shipped from any private elevator is being systematically reduced in quality below the general average quality of the grain of similar grades in the bins of the public terminal elevators, such grain may be required to pass inspection at a lower designated grade. It will be seen therefore, that while the manufacturing of grades by mixing constitutes a considerable part of the business of private elevators, even these operations are not without limitation.

The benefits which may be secured to the farmers' companies from the operation of hospital elevators are evident. These elevators enable them to condition their own grain and to take advantage of any profits to be made through mixing operations. In the operation of their public terminal elevators, however, the source of profit is somewhat obscured by the fact that under the law they may not store any grain for themselves, but must depend for their profits upon storage patronage secured from others.

The methods by which grain is sold on the Winnipeg Grain Exchange is of interest in this connection. While sample markets have

[3] The Canada Grain Act defines a hospital elevator to include every elevator or warehouse which is used for cleaning or other special treatment of rejected grain which is equipped with special machinery for that purpose.

recently been provided for in Canada, the great bulk of the grain business in the past has been conducted on the basis of Government inspection and grade. Sales are made by grade and without examination of samples. Grain bought in the country may be sold either in transit before inspection, after inspection but before being unloaded, or after being unloaded and placed in public storage. A large share of all the grain marketed in Canada is understood to be sold on basis in store at Port Arthur or Fort William. In actual practice one of the farmers' companies operating public terminal elevators may consign grain which it has bought at country stations to its own terminal elevators at Port Arthur or Fort William but before the car is unloaded the grain is sold to shipper or exporter. If in the meantime the car is not diverted or ordered to some other elevator, the farmers' company will in natural course receive this storage patronage. In addition to patronage secured in this way there is more or less opportunity to exchange warehouse receipts with other companies operating terminal elevators.

For example, the Saskatchewan Cooperative Elevator Co. is not allowed to own any of the grain which it has in its public elevators, but it may own grain stored in the public elevators operated by the United Grain Growers or any other company. It is a simple matter to transfer title to grain held in one elevator for title to grain held in another elevator by the indorsement of warehouse receipts. In this manner one public elevator may give storage patronage to another elevator in return for similar storage patronage received. The practical results are the same as if a public terminal elevator were allowed to have custody of the grain owned by it, with this exception, that there is less temptation to substitute or to specially select grain taken out of storage for delivery on contracts in which the company is directly interested. Under the present system of elevator supervision, however, there would be very little opportunity for practices of this kind.

Since public elevators are required to account for every bushel of grain received by them and are made responsible for shortages, they have likewise been deemed to be entitled to overages. Grain received into these elevators has been government-inspected and warehouse receipts are issued for the net number of bushels after deducting dockage. No matter how accurate may be the method of ascertaining the percentage of dockage in any one lot, discrepancies in cleaning are bound to occur. A very small percentage variation in dockage amounts to considerable in handling several million bushels. While every effort is made to keep overages down to a minimum without resulting in shortages and while shortages do occur sometimes, nevertheless the records indicate that overages are not uncommon and a possible additional revenue is had from this source.

No figures are available to show what proportion of the grain received into public storage in the large terminal elevators at Port Arthur and Fort William is owned by individual growers, but it is not large. However, it will be seen that in the case of the farmers' companies any public storage business conducted for the members is reflected in earnings in which the members have a direct interest. In addition to the direct financial benefits which accrue to the grain growers in Canada from the operation by farmers' companies of terminal elevators, certain indirect benefits are also claimed as the result of the restraining influence of farmers' competition on others engaged in the terminal elevator business.

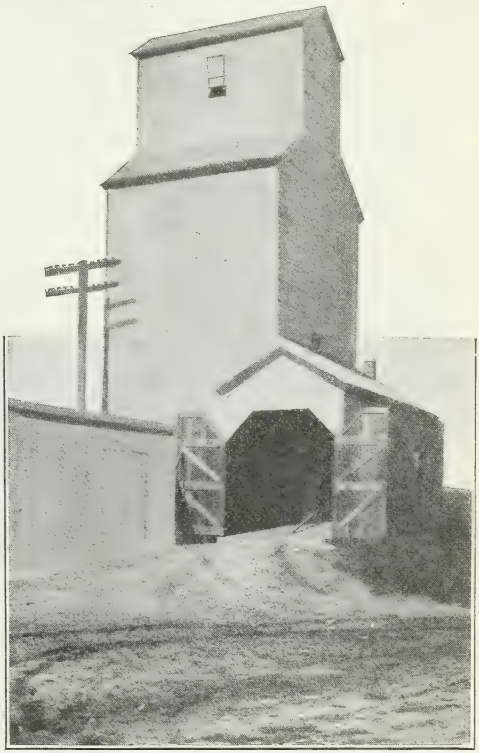

FIG. 3.—Typical farmers' elevator of the local single-unit type found in middle-western section of the United States.

EXAMPLES OF FARMERS' ORGANIZATIONS IN THE UNITED STATES.

LOCAL FARMERS' ELEVATORS.

By far the most of the farmers' elevators in the United States are of the single-unit type. The growers surrounding a shipping point will raise the necessary capital to build or buy an elevator. A corporation will be formed, a manager hired, and the business of buying and selling grain will be conducted independently of any other farmers' elevator or marketing organization. A farmers' elevator at one point may be a tremendous success, while at the next station one will fail miserably. In some cases, it is true, several elevators have been combined under one management, and not infrequently a farmers' elevator company located at one point will operate elevators at one or more neighboring points. In Kansas and possibly several other States organizations have been established on what is called the county-unit plan, the idea being to place all the farmers' elevators within a county under one management. The ad-

vantages claimed for this plan are that all elevators within the county may have the benefits of a highly skilled manager which the individual companies could not afford to employ singly, and that there is a decreased general and overhead expense by reason of standardization and centralization of accounting work. In addition, of course, there is a greatly increased purchase power when it comes to buying supplies and side lines usually handled by farmers' elevators. In the main, however, farmers' elevators in this country, and especially in the Middle West, have grown out of local effort, and up to the present time little has been done in the way of federating the individual companies into central organizations for marketing purposes.

The existence of such a large number of the single-unit type of farmers' elevators, the great majority of which have been in successful operation long enough to justify a belief in their permanence as an

FIG. 4.—Typical flat warehouse in sack-handling section of the Pacific Northwest.

economic thing, has naturally raised the question whether cooperative grain marketing should end with these local elevators or whether it should be extended to the terminal markets. No great movement like the farmers' elevator movement can proceed suddenly and rapidly to a certain point of perfection and as suddenly stop and remain stationary. It is true that much remains to be done in the matter of securing a firm footing upon the ground already covered and that stability should be secured there before proceeding further. However, it is also true that if perfection is to be attained in the operation of the country elevators before looking toward the next step, there probably will be no next step, unless, indeed, it be a step backward. That complete success in the operation of local farmers' elevators will be aided by greater unity and community of action is readily apparent, and unity naturally centers around terminal marketing. It may or may not be to the financial advantage of the grain

growers of the Middle West to follow the marketing of their grain beyond the local railroad station. Certainly the advantage will not be so great as it is commonly expected to be by those who view terminal marketing from a distance. But the conviction is general among the grain growers that some advantage is to be had, and it is doubtful whether anything but actual experience can affect that conviction. The problem, therefore, is not to discourage what is a legitimate and proper activity on the part of the grain growers, if they wish to engage in it, but rather to aid in the discovery of means and methods which will make intelligent and constructive effort possible.

FIG. 5.—Bulk-handling elevator in the Pacific Northwest.

TERMINAL ACTIVITIES.

To persons who have been inclined to view the Canadian methods of cooperative grain marketing as something which should be adopted immediately by the grain growers of this country, it may be interesting to know that within our own borders at the present time are at least three organizations which resemble in character the organizations of western Canada. It is true that none has yet approached in size either of the two large Canadian companies, but the idea of centralized management and the operation of local farmers' elevators as a line-house system in connection with terminal activities is not new in this country.

The Equity Cooperative Exchange of St. Paul, Minn., reports about 80 country elevators in operation as part of a line-house system. This company was first organized as a department of the American Society of Equity in 1908, and was incorporated under the laws of North Dakota in 1911. The local elevators of the Equity Cooperative Exchange are controlled absolutely by the general exchange directors, but, like Canadian companies, provision is made for a local advisory board. In addition to country elevators owned and operated as a part of the exchange system, there are a number of the locally owned and operated type of farmers' elevators which own shares of the capital stock of the exchange. These, of course, are operated as free agencies and may or may not favor the exchange with their grain shipments. The exchange operates a terminal elevator at St.

Paul, Minn., but instead of operating on the Minneapolis grain exchange (the Minneapolis Chamber of Commerce), it has established a market place in St. Paul.

The Montana Grain Growers of Great Falls, Mont., organized in 1918 under the laws of Montana, is another organization which in many ways has sought to emulate the Canadian companies. It has now about 20 country elevators under its control with approximately 3,000 members.

In the Pacific Northwest the Tri-State Terminal Co. of Seattle, Wash., furnishes another example of line-house operation of farmers' elevators. This company was formed in 1911. The annual statement of the company for the year ending May 31, 1919, shows a paid-up capital stock of $271,920 and a surplus of $34,302.75. It has a membership of about 2,500, in addition to a number of local farmers' elevator companies owning shares of its capital stock. Over 20 country elevators are operated by it as a part of the line-house system.

Among other organizations which serve or are preparing to serve the interests of farmers' elevators in the terminal markets are the Farmers' Commission Co. of Hutchinson, Kans.; the Farmers' Elevators Commission of Minneapolis, Minn.; the Farmers' Terminal Elevator Co. of Sioux City, Iowa; the National Cooperative Co. of Omaha, Nebr.; the Equity Union Grain Co. of Kansas City, Mo.; and the Michigan State Farm Bureau Elevator Exchange of Lansing, Mich.

FUNCTIONS OF COOPERATIVE GRAIN MARKETING ORGANIZATIONS.

In the case of farmers' elevators of all types in this country and in Canada there has been no material difference in their methods of operation as distinguished from the methods of private interests, except, of course, with respect to policies growing out of ownership of the marketing facilities by a large number of actual grain growers. No attempt has been made to secure control over crops of members, but each grower member has been left free to dispose of his crop when and to whom he chose. The whole effort in regard to cooperative marketing has been directed toward having the grower perform for himself certain functions of marketing which previously had been performed by others, but using exactly the same kind of marketing machinery. The only change is the substitution of cooperative ownership of middleman facilities for private ownership. If the idea of capital stock ownership by growers who are also patrons of the elevator company and the plan of distributing earnings among the members on the basis of patronage furnished were eliminated there would be nothing to distinguish the present day farmers' elevator company from any other corporation engaged in the grain business.

Grain is bought from members and nonmembers alike on the basis of prevailing market prices. Sometimes profits are made much in excess of the margins which were expected at the time of the purchase, and again large losses are similarly suffered. No attempt has been made to market grain by means of pools extending over certain periods and returns made to growers on the basis of average prices received for grain of like variety and grade of a given pool, as has been so successfully done in the marketing of certain perishable and semiperishable products. An exception to this statement may have to be made if an experiment now under way in the Pacific Northwest is successful. The Pacific Northwest Wheat Growers' Associations have recently been organized there. The purpose of these associations is collective bargaining in the sale of wheat under much the same plan that certain California products are now marketed.

Each grower upon becoming a member of the association will sign a contract by which he agrees to surrender control over the marketing of his crop for a period of years. His wheat must be delivered to certain warehouses or shipping points, as ordered by the association. The price to be paid for the wheat will not be known definitely until all of the wheat of a particular kind and grade pooled during the season has been sold. It is expected that by means of a comprehensive warehousing scheme money may be borrowed upon warehouse receipts in liberal amounts and that advances may be made to the grower at the time of delivering his wheat. Also, as wheat in certain pools is being sold and returns received, further advances will be made to growers having wheat in that pool. The principle upon which rests the entire plan, of course, is that an expert in the marketing of wheat will, over a period of years, be able to market the wheat of the grower at a price averaging higher than the individual could obtain for himself with his comparatively little knowledge of world conditions affecting wheat prices. It is also expected that if a considerable proportion of the wheat production in the Pacific Northwest area is secured under contracts of this kind, the manager or selling agent will become an important factor in that market.

At this time it is impossible to judge the ultimate success of pooling as applied to grain. No doubt if there is merit in the plan no better field for demonstrating it is to be found than in the Pacific Northwest, where country warehousing is still the principal function of many farmers' elevators, whereas in the Middle Western States the tendency has been away from the practice of storing grain for farmers. In the States of Oregon, Washington, and Idaho considerable grain is still handled in sacks, piled in flat warehouses, from which it is sold by growers to mills and brokers direct by indorsement of warehouse receipts.

COMPARISONS AND CONCLUSIONS.

One can not carry his investigations of cooperative grain marketing far without realizing that what may be an excellent method for some sections and for some conditions will not always work out successfully in other sections or when applied to other conditions. One hears altogether too much of plans and systems and not enough of analysis of existing conditions. The farmers' elevators of the Middle West are endeavoring to coordinate their activities and to extend their operations to terminal marketing, but it is doubtful if there will be adopted either a Canadian plan or a plan which has been discovered in some other section. The extension of their activities will necessarily be a development along lines that have a special fitness for their own peculiar needs and requirements.

The Canadian system of line-house operation of farmers' elevators would seem to offer greatest advantage in those States where crops are somewhat uncertain or where the crop year is of short duration, some elevators being closed for certain periods each year, and under which conditions it is difficult to secure the type of manager which is necessary if the local company shall market on its own initiative and responsibility. Most managers who are competent to fill an executive position do not care to take a position in a section of the country where short crops may require that they seek other employment during the periods when it is necessary to close the elevator. On the other hand, the type of man who is capable of assuming responsibility and who has the ability to manage a business in all its details will not be satisfied to hold a position where all of the executive and administrative matters are handled from a central office. Of course, there are exceptions.

On the whole, the local agents of the line-house type of farmers' elevators are of exceptionally high grade, but necessarily they are of a different type from the men who are managing the more successful single-unit type of farmers' elevators in Illinois, Iowa, Nebraska, and other Middle Western States.

Another point of difference that needs to be considered is that in Canada the city of Winnipeg is the natural gateway through which passes each year a very large proportion of all the marketed grain of western Canada. It is quite natural for terminal marketing activities to center there. In the United States, on the other hand, are several large terminal markets, among which there is a constant shift of the grain movement from several States.

A central control over the farmers' elevators located in western Iowa, for example, might, during a single year, be logically situated in several different markets. While this condition might be overcome to some extent by the establishment of agencies in each of the

more important markets, it can readily be seen that conditions in this section of the United States may not yield to the same kind of marketing methods that are found desirable in other sections of the United States and in Canada.

The line-house method of operating country elevators has a number of economical advantages over the single-unit type of farmers' elevator which may not be overlooked. For example, it allows standardized construction and machinery. Thus certain repair parts may be kept in stock at a central point, from which they may be shipped quickly where needed. In case of crop failure in restricted areas because of hail or drought which has not affected other sections, it is possible to close the elevators in the affected area during the emergency. Also, elevators may be closed during the dull periods without the losses which are attendant to the single-unit elevator under similar conditions. The advantage of centralized accounting and the opportunity for departmentalization and specialization is apparent.

Favoring the local single-unit form of cooperative elevators is a degree of community pride which usually centers around these organizations, quite independent of the services rendered. Local government carries a special appeal to the average American citizen. This to some extent must be lessened, if not entirely lost, where control is vested in a body of directors and a management distantly situated. In many sections there is a prejudice against centralized authority which is not easily overcome.

In cooperative marketing it is more essential that the system be suited to local conditions and practical need than it is that the system itself shall have been successfully applied in other fields. The local farmers' elevators, typical of the middle western section of the United States, were established primarily to solve marketing problems of local character. That they have not extended their activities to the terminal markets does not in any way reflect upon their success as marketing institutions. Rather it indicates a conservativeness too often lacking in movements of this kind.

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